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Features

Apache Touts New Delaware Basin Resource Play

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Apache's shares caught a tailwind on Wednesday as the company announced the discovery of a "significant new resource play" in a largely overlooked area of the red-hot Permian Basin.

The Houston-based producer said that over the past two years it has quietly accumulated 307,000 net acres in Reeves County in West Texas, where multiple "stacked" rock formations hold large quantities of liquids-rich gas and crude oil.

The area in question is in the southern portion of the Delaware Basin -- a subplay within the larger Permian.

Chief Executive John Christmann said the oil and gas industry has drilled plenty of wells further north and east, but had wrongly assumed that conditions in "Alpine High" were not favorable for commercial oil and gas production.

He said the industry's lack of interest in the area -- and a lot of hard work by Apache's employees -- had enabled the company to discover a "hidden diamond in the rough."

What's more -- it was able to do so at very low cost, paying an average of just \$1,300 per acre. Recent acquisition costs in more established areas of the Permian Basin have typically run to tens of thousands of dollars per acre.

Apache has provisionally estimated that its Alpine High acreage holds 75 trillion cubic feet of liquids-rich gas and 3 billion barrels of oil in place.

Although the industry typically only recovers a fraction of original oil and gas in place, these are still big numbers to be starting out with.

Apache's shares closed almost 7% higher at \$55.13 after retreating from an earlier high of \$58.99.

RBC analyst Scott Hanold said he expected the news to generate considerable interest among investors.

"For [Apache] it has the potential to be a major long-term growth development," he said.

However, Hanold added: "We think the market may need to see longer-term well performance and returns, given the gassier aspect of the production stream."

Apache emphasized that it is still in the early stages of delineating the new play and that its initial estimate of hydrocarbons in place is based on just two formations, the Barnett and Woodford shales.

It said it sees additional oil potential in the shallower Pennsylvanian, Bone Springs and Wolfcamp formations. It expects to quantify this over time as it drills more wells in the area.

"We're very early in starting to understand how big this is going to be and what these other formations are going to add to this resource," Christmann told the Barclays energy conference in New York.

"This really is a giant onion that is going to take us years and years to peel back and uncover," he said.

Apache has drilled 19 Alpine High wells to date, but only nine are currently producing because of infrastructure constraints in the area. Six are producing from the Woodford, and one each from the Barnett, Wolfcamp and Bone Springs formations.

The company said it will increase its 2016 capital spending by \$200 million to accelerate delineation and development of the new play.

This will lift capex for the year to around \$2 billion, of which more than one-quarter will be allocated to Alpine High.

Christmann said that after playing defense for the better part of two years now, Apache expects its North American onshore business to return to growth next year (OD Feb.26'16).

Apache is already an established player in the Permian, with operations in the Midland and Delaware subbasins and the Central Basin Platform.

Its total Permian Basin production amounted to 165,000 barrels of oil equivalent per day during the second quarter of this year and the company says it ranks third in the Permian, both in terms of acreage and production.

Christmann said Apache will step up development activity next year at its established Midland and Delaware operations and run four to five rigs in the Alpine High area to continue delineation work there and ramp up production.

The Permian Basin has been producing oil and gas for about a century now but has undergone a dramatic revival in recent years as a result of the US shale boom.

The basin's oil production hit a peak of more than 2 million barrels per day earlier this year and the region has seen a flurry of mergers and acquisitions activity recently (OD Sep.7'16), driven by its large resource base and favorable economics.

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